

US Misses-Mines-for-Nukes Opportunity

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by **Peter Hayes**

CONTENTS

- [I. Introduction](#)
- [II. Report by Peter Hayes](#)
- [III. Nautilus Invites Your Responses](#)

I. Introduction

Peter Hayes, Executive Director of the Nautilus Institute, writes, "while the United States is chasing the DPRK regime's loose change in the short term to apply pressure, the regime is investing in minerals development, niche markets for exporting cheap labor or embodied labor, a boot-strapping service sector, and real estate development on the DMZ that combined, represent a long-term and slowly growing economic foundation for a nuclear-armed DPRK."

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II. Report by Peter Hayes

- "US Misses-Mines-for-Nukes Opportunity"
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Introduction

At the outset of the US-DPRK Agreed Framework, the DPRK proposed to the United States that US

firms invest and refurbish mines as part of expanded cooperation of the kind that could lead to a new security relationship. As I wrote [<https://nautilus.org/DPRKBriefingBook/economy/DoesitExist.html>] in 2002:

"In 1994, the DPRK identified eight mines that could be refurbished and recommence production for export of minerals such as magnesite and zinc. However, each mine is basically moribund and requires that the limiting conditions such as lack of power (on the order of 5-10 megawatts per mine), rail and road infrastructure, mechanical equipment to mine, process, and transport ore, be overcome simultaneously. Although the global minerals sector is in the doldrums, DPRK mines may be competitive in specific markets. It should also be possible to create innovative frameworks in the early transitional period wherein the DPRK net earnings on minerals exports could be directed to verifiable humanitarian and market-oriented small-scale industrial development in towns and farms surrounding the mine-head. This approach would ensure that the earnings are not dissipated in the military-industrial complex or diverted to military modernization. Each mine may require \$5-10 million of external investment from a foreign partner to refurbish and could earn a net \$1-2 million per year.

As with information processing and software shops, mining industries often do little for local development beyond opening up regions with transport and communications infrastructure. Indeed, mines often bring negative environmental impacts to local communities and social disruption in the wake of camp followers and imported workforces. In the DPRK, however, such valid concerns (DPRK mines are notoriously polluting of rivers and occupational health and safety practices in DPRK mines are almost non-existent) may be offset both by introducing global standards and by directing revenues to local development.

The major networking needs to implement a minerals sector strategy are not very demanding. A satellite phone at the minehead office and at the export facility combined with telecommunications connectivity with the external joint venture partner would suffice. Internally, a transparent set of accounts that meet international business standards adhered to by an external investor would need to be supported electronically, while the DPRK management would need proper training in minerals economics and markets in order to ensure that DPRK interests are properly served in the terms of the transactions implemented by a joint venture. Such analytical capacity needs to be created in the DPRK mining corporate management but the autonomous-from-Pyongyang requirement should be feasible. For in reality, DPRK parastatal firms have operated in this fashion in responding to external markets without reference back to Pyongyang."

The DPRK outlined the basic needs for power and other infrastructure at each site, and the investment required for each mine in its memo to the US Government (see: <https://nautilus.org/wp-content/uploads/2011/12/DPRKonDPRKMines.pdf> and <https://nautilus.org/wp-content/uploads/2011/12/USGSonDPRKMines.pdf>)

A couple of American firms and entrepreneurs explored the possibility of investing in DPRK magnesite mines in the late nineties, but due to risk and low global minerals prices in the nineties, these proposals went nowhere. Officially, the US Government sat on its hands. Former US Defense Secretary William Perry was not even apprised of the DPRK proposal on mines during his review of US policy towards the DPRK for President Clinton. At one point, the United States blocked Israeli investment in DPRK mines that might have led to a mines-for-missiles deal.

Meanwhile, as the IFES report outlines, the DPRK has moved ahead to promote one of its few competitive "factor endowments" in the international market, that is, its minerals sector. (see: <https://nautilus.org/DPRKBriefingBook/economy/IFESonDPRKMines.html>) This positioning explains partly why the DPRK leadership is unmoved by the US campaign against its alleged narco-criminal

activities.

In short, while the United States is chasing the DPRK regime's loose change in the short term to apply pressure, the regime is investing in minerals development, niche markets for exporting cheap labor or embodied labor, a boot-strapping service sector, and real estate development on the DMZ that combined, represent a long-term and slowly growing economic foundation for a nuclear-armed DPRK.

Related materials:

Proposal to Form Special Mining Area in Danchon Region for Foreign Investment

Korea Joint Venture Group, 1995

<https://nautilus.org/wp-content/uploads/2011/12/DPRKonDPRKMines.pdf>

The Mineral Industry of North Korea

Chin S. Kuo, U.S. Geological Survey-Minerals Information, 1996

<https://nautilus.org/wp-content/uploads/2011/12/USGSonDPRKMines.pdf>

Digging for Answers in the DPRK Mining Sector

by the Institute for Far Eastern Studies, 2006

<https://nautilus.org/DPRKBriefingBook/economy/IFESonDPRKMines.html>

III. Nautilus Invites Your Responses

The Northeast Asia Peace and Security Network invites your responses to this essay. Please send responses to: [>bscott@nautilus.org](mailto:bscott@nautilus.org?subject=(Response%20to%20Special%20Report%2006-34A)). Responses will be considered for redistribution to the network only if they include the author's name, affiliation, and explicit consent.

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